
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR ATTENTION.

If you are in any doubt as to the action you should take, you are recommended to immediately consult your stockbroker, bank manager, solicitor, accountant or other professional advisor (being, in the case of shareholders in Ireland, an organisation or firm authorised or exempted pursuant to the Investment Intermediaries Act, 1995 or the European Communities (Markets in Financial Instruments Directive) Regulations 2007 (as amended) and, in the case of shareholders in the United Kingdom, an advisor authorised pursuant to the UK Financial Services and Markets Act 2000).

If you have sold or transferred some or all of your ordinary shares in United Drug plc ('United Drug') prior to the relevant ex-dividend date and those ordinary shares are included in Box 1 on the Election / Mandate Form issued in respect of a Share Alternative Offer, you should consult the stockbroker, bank or other agent through or by whom the sale or transfer was effected without delay.

UNITED DRUG

Share Alternative Scheme

Opportunity to receive
fully-paid ordinary
shares instead of cash dividends

7 January 2011

THIS DOCUMENT CONTAINS INFORMATION WHICH WILL ENABLE UNITED DRUG SHAREHOLDERS TO ELECT TO RECEIVE DIVIDEND PAYMENTS IN THE FORM OF UNITED DRUG NEW ORDINARY SHARES.

IF YOU WISH TO RECEIVE DIVIDENDS IN CASH IN THE USUAL WAY, YOU NEED TO TAKE NO FURTHER ACTION ONCE YOU HAVE READ THIS DOCUMENT.

United Drug

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7 January 2011

Dear Shareholder

Share Alternative Scheme

This document explains the Company's Share Alternative Scheme ('the Scheme' or 'the Share Alternative') which provides you with an opportunity to reinvest your cash dividend entitlement in new ordinary shares thereby increasing your shareholding in the Company without incurring dealing costs or stamp duty. The Company can use the cash which would otherwise have been paid in dividends, to finance the growth of its business. The Scheme thus benefits both the shareholders and the Company.

Under the terms of the Scheme, you have a number of choices. You may:

1. elect to receive your entire entitlement to the relevant dividend in the form of new ordinary shares;
2. elect to receive a mix of part cash and part new ordinary shares; or
3. elect to receive your entire dividend entitlement in the form of new ordinary shares for all future dividends where a Share Alternative Offer is made.

An election to receive new ordinary shares on one occasion will not prevent a shareholder from taking cash on the next occasion a Share Alternative Offer is made. Similarly, a shareholder who decides to receive cash on one occasion will not be prevented from electing to take new ordinary shares in the future.

You are under no obligation to accept a Share Alternative Offer, either in whole or in part. If you wish to continue to receive your dividend entirely in cash you should simply ignore the Scheme Election / Mandate Form ('Election / Mandate Form') sent to you.

I would advise you, however, to read this document carefully before making your decision and to assess whether the Scheme would be of benefit to you. In making your choice you should be aware that the price of United Drug shares like the price of all shares listed on the Stock Exchange can go up or down. If you are in any doubt about the action you should take please consult your stockbroker, bank manager, solicitor, accountant or other professional adviser as soon as possible.

DIRECTORS

R. Kells, O.B.E., B.Sc.Econ., F.C.I.S. (British) (Chairman); L FitzGerald, B.Comm., M.B.S. (Chief Executive); C. Brinsmead, B.Sc., M.Sc. (British) C. Corbin (British); A. Flynn, B.Comm., F.C.C.A.; P Gray, B.A., F.C.A.; H. Friel, B.Comm.; G. McGann, B.A., M.Sc., F.C.C.A.; B. McGrane, B.Comm., F.C.A.; Dr. J. Peter, F.F.P.M., M.B., Ch.B., B.D.S., L.D.S.R.C.S. (British); A. Ralph, B.Comm., F.C.A.; P. Toomey, B.Comm., F.C.A.. K. Geoghegan, B.Comm., M.Acc., A.C.A. (Secretary).

REGISTERED OFFICE: United Drug House, Magna Drive, Magna Business Park, Citywest Road, Dublin 24. REGISTERED IN IRELAND NO. 12244

If you wish to avail of the Scheme, complete the issued Election / Mandate Form and return it to Computershare Investor Services (Ireland) Limited, P.O. Box 954, Heron House, Sandyford Industrial Estate, Dublin 18, Ireland as outlined in the Election / Mandate Form. The tax consequences of electing to receive new ordinary shares instead of a cash dividend will depend on your individual circumstances. A guide to the likely tax consequences of accepting a Share Alternative Offer is set out in this document.

Yours sincerely,

Ronnie Kells
Chairman

OUTLINE OF SHARE ALTERNATIVE SCHEME

The scheme provides shareholders with an opportunity to receive all or part of their dividend entitlement in the form of new ordinary shares in lieu of cash, whenever a Share Alternative Offer is made by the Directors.

The Scheme applies to shareholders on the register of members on the relevant Record Date who hold the minimum number of ordinary shares specified on the Election / Mandate Form.

The new ordinary shares will be issued at the average market price obtained from the dealings in the ordinary shares for the five business days commencing on the relevant ex-dividend date ('the Reference Price').

A shareholder may elect to take new ordinary shares or cash or a combination of both on any occasion a Share Alternative Offer is made. You may not revoke or cancel a valid election once it has been made. No acknowledgement of the Election / Mandate Form will be issued.

The receipt of new ordinary shares enables shareholders to increase their shareholdings in the Company without incurring dealing costs or stamp duty.

Dividends taken in the form of new ordinary shares are treated as income for tax purposes. (Irish and UK tax resident shareholders should refer to the brief Taxation guide on pages 7 and 8).

Shareholders who wish to receive future dividends in the form of new ordinary shares instead of cash should insert an 'X' in Box 5 of the Election / Mandate Form.

The new ordinary shares will be equal in all respects to the existing ordinary shares including the right to future dividends.

Shareholders resident in a Member State of the European Union may join the Share Alternative Scheme. For legal and regulatory reasons, the Scheme is not currently available to shareholders resident outside the European Union although the Company may, at its discretion, extend the Scheme to other residents at any time. The Directors reserve the right at any time prior to the payment of the Dividend to withdraw the Offer without notice if it appears desirable for them to do so because of a change in circumstances and to pay the Dividend wholly in cash. Such circumstances would include a fall in the price of an ordinary share such that, by the final date for receipt of Election / Mandate Forms, the value of an ordinary share has fallen 20% or more below the value determined and as described in the Election / Mandate Form.

No fractions of new ordinary shares will be allotted. Accordingly shareholders with less than the relevant minimum number of ordinary shares may not make an election under the Offer as the Dividend (after applicable withholding tax) payable to such shareholder will be insufficient to pay-up the Reference Price at which one ordinary share is to be issued. Also, if you elect to take new ordinary shares in respect of your entire dividend, any net residual cash entitlement (i.e. after applicable withholding tax) will be carried forward to the next dividend payment date and added to your cash dividend entitlement at that time. If you sell your entire holding before the next dividend payment date, upon request, any net residual amount being carried forward will be paid to you.

If your ordinary shares are recorded in the Register of Members in more than one account, you will receive more than one Election \ Mandate Form. Please note that you may request the Company's Registrar to consolidate your holdings following the dividend payment date. Separate Election / Mandate Forms must be completed in respect of each account if you wish to opt for new ordinary shares instead of cash.

If, prior to the date on which the ordinary shares were last quoted ex the Dividend Date, you bought or sold ordinary shares, but that transaction is not reflected in the number of shares shown in Box 1 of the Election \ Mandate Form, you should without delay consult the stockbroker or agent through whom the transaction was effected for advice as how to deal with the Election \ Mandate Form. The number shown in Box 1 should not be amended.

Shareholders are advised to read this document before making any decision on whether to continue to receive dividends in cash or to receive all or part of any dividend in new ordinary shares.

WHAT ACTION SHOULD YOU TAKE?

NEW ORDINARY SHARES IN LIEU OF CASH

If your holding of ordinary shares is at least the minimum specified in a Share Alternative Offer, you may elect to receive new ordinary shares in lieu of the cash dividend by completing the Election / Mandate Form and returning it as instructed.

Your choices are as follows:

To receive your **maximum** entitlement as shown in Box 3, simply sign the Election / Mandate Form.

To receive a combination of new ordinary shares and cash, write the number of new ordinary shares you wish to receive in Box 4 of the Election / Mandate Form and sign it.

If Box 5 is blank, and you wish to automatically receive your maximum entitlement in respect of the relevant dividend and all future dividends for which a Share Alternative Offer is made place an 'X' in Box 5 of the Election / Mandate Form and sign it.

MANDATE

If pursuant to a previous Share Alternative Offer, you elected to receive new ordinary shares in lieu of cash in respect of future dividends, then an 'X' will be already printed in Box 5 of the Election / Mandate Form and you should regard the Election / Mandate Form as a notification of your entitlement to new ordinary shares.

- No action is required by you if you wish to receive your maximum entitlement in new ordinary shares automatically. Do not return the Election / Mandate Form.
- If you now wish to receive your dividend entitlement in cash you must revoke or cancel your mandate by writing to the Company's Registrars (specified on the Election / Mandate Form) prior to the closing date for the receipt of Election / Mandate Forms.

DIVIDEND IN CASH

If you wish to receive your dividend entitlement in cash on all of your ordinary shares or you hold less than the minimum specified in a Share Alternative Offer, you should not complete or return the Election / Mandate Form.

REMEMBER in order to receive new ordinary shares in lieu of cash, send the properly completed Election / Mandate Form to the Company's Registrars (specified in the Election / Mandate Form) to arrive no later than the time specified on the Election / Mandate Form.

TAXATION TREATMENT OF SCRIP DIVIDENDS

The tax consequences for you of electing to receive new ordinary shares instead of a cash dividend will depend on your individual circumstances. **If you are in any doubt as to your tax position, you should consult your professional adviser before taking any action.**

Taxation treatment for shareholders resident in Ireland and the United Kingdom

The tax position outlined below is a general summary of Irish and UK law at the date of this circular and is for guidance only.

Irish Income Tax/Corporation Tax

Individuals

Irish resident shareholders electing to receive new ordinary shares under the Scrip Dividend Scheme will be treated, for tax purposes, as having received a dividend from the Company and will be subject to income tax at their marginal income tax rate and Universal Social Charge (USC) on the gross cash value of the dividend (i.e. before deduction of applicable withholding tax). Shareholders may, depending on their circumstances, also be subject to Pay Related Social Insurance (PRSI) contributions in respect of the gross cash value of the dividend. Shareholders will be entitled to offset the withholding tax deducted against the income tax, PRSI and USC liabilities due on the dividend. The withholding tax amounts to income tax at the standard rate currently 20% of the gross cash value of the dividend. Shareholders not liable to Irish income tax, etc. will be entitled to reclaim any withholding tax from the Irish Revenue.

Corporate Shareholders

Irish resident corporate shareholders electing to receive new ordinary shares under the Scrip Dividend Scheme will be treated as having received a dividend from the Company. Dividends received by Irish corporate shareholders should not be subject to corporation tax, as they will be received from an Irish resident company. Furthermore, provided the corporate shareholder has made the appropriate declaration in the prescribed format and meets the relevant conditions, the dividend will not be subject to Irish withholding tax. Corporate shareholders characterised as close companies for tax purposes may be subject to investment income surcharge in respect of the dividends received through the Scrip Dividend Scheme.

Irish Capital Gains Tax

The new ordinary shares acquired by shareholders (both individuals and corporates) will enlarge the existing shareholdings to which the dividend relates for capital gains tax purposes. The net cash value of the dividend (i.e. after deduction of applicable withholding tax) used to acquire the new ordinary shares under the Scrip Dividend Scheme will be treated as enhancement expenditure incurred in respect of the shareholding to which the dividend relates for capital gains tax purposes. On a subsequent disposal of these shares, capital gains tax will be computed in the normal manner. For these purposes, shares disposed of will generally be identified with shares acquired on a first in first out basis.

UK Income Tax/Corporation Tax

Individuals and Corporate Shareholders

Under current UK Inland Revenue practice, shares received in lieu of a cash dividend by a UK resident from a company which is not resident in the UK do not give rise to taxable income for UK tax purposes. Accordingly, UK resident shareholders electing to receive new ordinary shares under the Scrip Dividend Scheme should not be liable to UK income tax or corporation tax, as appropriate, on the allotment of the new ordinary shares. Dividends received by UK resident shareholders will not be subject to Irish withholding tax provided the shareholder has made the appropriate declaration in the prescribed format and meets the conditions necessary to qualify for the exemption.

UK Capital Gains Tax

Individuals and Corporate Shareholders

The new ordinary shares acquired under the Scrip Dividend Scheme will enlarge the existing shareholding to which the dividend relates for capital gains tax purposes. The base cost of the enlarged shareholding will not be increased as a result of the dividend.

Cash Dividend

If a shareholder resident in either Ireland or the United Kingdom receives any part of the Final Dividend in the form of cash, the gross cash dividend will be treated as a conventional dividend for tax purposes.